1949

UNITED STATES DEPARTMENT OF AGRICULTURE
Office of the Secretary

Washington, March 29, 1949

Mar. 29, 1949

The following is the text of a letter, with attachments, which Secretary of Agriculture Charles F. Brannan has sent to Senator Lucas in reference to recent statements about war-time records of the Commodity Credit Corporation:

Hon. Scott W. Lucas
United States Senate

Dear Senator Lucas:

wish to give you a brief statement of facts on the allegations made by Senator Williams on March 25 concerning the Commodity Credit Corporation. The Senator's comments refer to a report on the audit of the Commodity Credit Corporation as of June 30, 1945, which I understand the Comptroller General intends to make available to the Congress in the very near future.

Unfortunately, the statements made by the Senator are fragmentary in character and not reflect the more complete discussion of these matters which, I am informed, will be contained in the audit report. Some of the most pertinent facts, from the point of view of the public interest, are not recognized by the Senator.

1. The $350 million was accounted for. It was a net book figure representing the results of some 2 million transactions. The program was liquidated in accordance with plans known to and having the concurrence of GAO auditors, and resulted in a profit to the Corporation. It was not possible, however, because of wartime backlogs to furnish the auditors a detailed listing of amounts due the Corporation by name and address of debtors as of June 30, 1945. This apparently is what the Senator refers to.

(more)

2. There has been no charge or intimation of fraud or dishonesty on the part of any employee, or of loss to the Government.
3. The period covered by the report ended nearly four years ago, while the country was still at war.

The facts regarding these wartime problems are, of course, not new to the Congress. They were thoroughly covered in investigations conducted by Judge Tarver pursuant to House Resolution 50 in the spring of 1945, and they were dealt with again before the Senate Committee on Agriculture and Forestry in connection with hearings on S. 1322 a year ago.

Senator Williams is now, therefore, bringing up matters which have already been thoroughly investigated and on which full corrective action has already been taken.

I am enclosing a brief discussion of the facts about each of the points, as definitely as we can identify them, which have been raised by Senator Williams. We shall be glad to furnish any further information which may be desirable.

Sincerely yours,

/s/ Charles F. Brannan

Secretary

UNITED STATES DEPARTMENT OF AGRICULTURE
Washington 25, D. C.

The following are attachments to Secretary Brannan's letter of March 29, 1949 to Senator Lucas:

LACK OF SUPPORT FOR GCP RECEIVABLES

Senator Williams' Statement (Congressional Record, March 25, 1949)

"It has been reported to me, from sources which I consider very reliable, that over $350,000,000 of receivables in the general commodities purchase program could not be supported or verified because of faulty accounting policies and poorly devised procedures." (Page 3254)

also

"I think it is well to know whether we can get an accounting of the $350,000,000 which it is reported the books are out of balance." (Page 3255)

also

"Four years have elapsed, and if the Corporation cannot make a determination today closer than $350,000,000 it is time the country knew about it. I desire to know as one, why that cannot be done." (Page 3255)

Comment

These statements pertain to operations under the General Commodities Purchase Program conducted by the Corporation for the War Food Administration, which was subjected to a complete investigation under House Resolution 50 in December 1944. The report submitted by Mr. Tarver from the Committee on Appropriations on June 27, 1945 (Report No. 816 - Union Calendar No. 238, 79th Congress, 1st Session,) contained a full disclosure of the condition of the records and financial statements of these operations.

These receivables largely represented unbilled deliveries under the Lend-Lease Program, and were payable from Federal funds appropriated during the emergency period to the Lend-Lease Administration and its successor agencies. Shortly after July 1945, the Corporation undertook the task of liquidating the program on a reasonable and practicable basis. It was determined that due to the volume of transactions and the administrative costs involved, and since there would be no effect on the overall interests of the U. S. Government, intra-governmental receivables would not be reviewed in detail by the Corporation. Other transactions were reviewed in detail. This determination was made following an interchange of correspondence with representatives of the General Accounting Office and

discussion with various investigators from the House Committee on Appropriations during hearings on administrative expenses for Lend-Lease liquidation. The GCP program was liquidated with a net gain to the Corporation. A report as of June 30, 1947 on these actions was submitted to the General Accounting Office on September 24, 1947, and again on December 26, 1947 (copy attached), and, in accordance with the request of the GAO, has been supplemented from time to time to show the progress in liquidating claims.

(The attachment referred to above follows.)

December 26, 1947

Mr. Clark L. Simpson
Assistant Director
Corporation Audits Division
General Accounting Office
Washington, D. C.

Dear Mr. Simpson:

In discussions as early as April 1946 with your office you concurred in our general approach to the problem of liquidating account balances reflecting GCP payables and receivables, and in your letter of April 16, 1947, you concurred in our proposed plan to make no further investigation of transactions representing deliveries (1) under the Lend-Lease program prior to September 2, 1945 (V-J Day) and (2) under procurements made for other agencies of the U. S. Government, provided that it could be demonstrated that there will be no over-all loss to the U. S. Government.

A comprehensive report was forwarded to you September 23, 1947, with respect to the liquidation of the GCP accounts payable and accounts receivable and the adjustments in the accounts incident thereto. However, in view of our previous discussions and understandings, it is believed appropriate to also briefly summarize the project and its results.

As you know, the total activity during the period under discussion amounted to approximately eight billions of dollars and involved individual transactions running into the millions. The unit for inventory and accounting purposes was usually a carload of the commodity involved so that when such unit is multiplied by the purchase, movements, storage, cost determination, sale, billing and collection transactions which must be recorded in each instance, the magnitude of the total undertaking almost defies comprehension in terms of usual commercial undertakings.

During the war period and for some time thereafter it was not possible to maintain the accounting operations, including the accounts payable and accounts receivable, of the GCP Program on a current basis. With respect to payables, deliveries by vendors and payments therefor based upon documentation called for by the contract were usually recorded currently as each event occurred but were not related to each other for the purpose of ascertaining and recording the normal adjustment for differences between estimated charges based upon shipping information and actual payments based upon certified documentary evidence of delivery.

With respect to receivables much the same situation existed, i.e., liftings based upon shipping information and bills and collections based upon certified

documentation were each recorded as currently as possible as the events transpired but were not related to each other for the purpose of ascertaining and recording normal adjustments for differences between estimated lifting values and actual bills and collections. Since there were several million transactions involved in these accounts, it can readily be seen that by not making such adjustments currently the differences accumulated in the accounts and eventually grew into large dollar amounts, although perhaps not disproportionate to the billions of dollars of activity involved.

In order to determine the amount of these differences to be adjusted and also in order to determine as at June 30, 1947 the outstanding payables and receivables with respect to the GCP Program, the procedure as outlined in our report of September 23, 1947, and as briefly summarized hereinafter was followed.

With regard to accounts payable, an abstract showing the detail of each delivery by the vendor and each payment by the Corporation was prepared for each contract. If this indicated deliveries which had not been paid for, the data were reviewed and audited with the documents and records reflecting the shipment and storage of commodities. Following this examination the contracts which still appeared to reflect open items were forwarded to the field fiscal office which had made the payments for further reconciliation and verification. After this work was performed, current liquidations (payments) were verified with the remaining contracts. As of June 30, 1947, there remained only 42 contracts with balances totaling $11,676,960.68 out of the billions of dollars of contracts involved on which it was necessary to undertake a final verification for the purpose of determining the validity of the amounts carried as payables. The balance of the accounts payable reflected in the general books at June 30, 1947, prior to adjustment was $72,843,595.19. Thus the net adjustment required to properly state the accounts was made in the amount of $61,166,634.51 by reducing accounts payable with a corresponding reduction in cumulative cost of sales.

Should there be claims subsequently submitted by vendors for deliveries which were not included in the amounts established as payables, a complete examination will be made to assure the validity of such claims prior to payment. Also, in collaboration with the Office of Audit, Production and Marketing Administration, and your office a further verification is being completed with respect to the $11,676,960.68 remaining on the books as of June 30, 1947.

With respect to the accounts receivable liquidation it was necessary to first balance the detail representing lot-by-lot shipments, invoices, and collections to the general ledger control accounts for the period March 1, 1944, through June 30, 1947. After the detail was balanced the transactions were segregated into groups so that detail verification could be made for the purpose of establishing amounts due from commercial customers, foreign governments, and Lend-Lease deliveries after V-J Day. In accordance with our plan concurred in by your office, we did not examine in detail the transactions representing Lend-Lease deliveries prior to V-J Day or deliveries to other government agencies since, as previously discussed, any overcharges or undercharges in Lend-Lease billings and collections prior to V-J Day will not affect Lend-Lease settlements with foreign governments and since any overcharges or undercharges to other government agencies will not result in any loss or gain to the Government as a whole. However, test checks were made in conformity with generally accepted audit principles, and the results of such test checks revealed that the invoicing and collection operations of the Corporation were generally satisfactory. In addition to the analysis and verification of outstanding accounts receivable which were developed from the detailed entries to the accounts, all shipments (involving over $2,000,000,000) to Cash-Paying Foreign Governments and UNRRA were

reconciled with the quantities invoiced and paid, in order to independently establish that any amounts owing and due to Commodity Credit Corporation from these claimants were billed and collected. The status of each contract balance was verified with the accounts prior to the closing of the books as at June 30, 1947, excepting for minor differences which were examined and adjusted in the books subsequent thereto. The results of this work were made available to your office for confirmation with the debtor or creditor in conjunction with your audit.

Adjustments were made as of June 30, 1947 of $64,627,243.64 and $31,842,483.09, respectively, to the general books to properly state accounts receivable--unbilled and accounts receivable--billed. Again, although the dollar amounts involved are large, they must be related to the billions of dollars of activity to get a perspective.

Abstracts of the accounts, work papers, supporting documents and files were accumulated during the progress of liquidation of the payables and receivables of the GCP Program so as to provide your office with such data as required to verify the adequacy and accuracy of the work involved in this project. Also, the Office of Audit, PMA, is making an examination of the audit of UNRRA and Cash-Paying Foreign Government accounts referred to for the purpose of determining the accuracy of the work performed.

Consequently, we believe the action which was taken by the Corporation was in conformity with our mutual objective of seeking to avoid the incurring of unjustifiable administrative expense by the Corporation and the Government in the correction of war-time accounting deficiencies, but to exert all reasonable efforts in the collection of amounts from sources outside the U. S. Government.

Very truly yours,

/s/ K. A. Brasfield
K. A. Brasfield
Treasurer

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VERIFICATION OF INVENTORIES

Senator Williams' Statement (Congressional Record, March 25, 1949)

"The book value of the inventories held by the Corporation as of June 30, 1945, was in excess of $1,000,000,000, but it has been reported to me that it was not possible to verify that amount physically." (Pages 3254-55)

also

"Mr. President, the book value of the inventories held by the Corporation as of June 30, 1945, was in excess of $1,000,000,000, but it has been reported to me that it was not possible to verify this amount physically.

"My experience in business has been that when the Government agent comes around to audit my account, I must verify every item. I see no reason why we should extend special exemption to the Government Corporation. If they cannot verify the inventory, let us find where the money went. If they can verify the inventory, the matter can be cleared up rapidly. If the charge is unfounded, I shall be the first to place that fact in the record. I feel we should know the truth. I received this information from persons whom I believe to be reliable, and I believe the report to be correct. If I did not believe it to be correct, I would not be standing on the floor of the Senate at this time asking for the facts." (Page 3253)

Comment

The complexities of making a physical verification of approximately $1 billion dollars of commodity inventories as at any specific date during the war period is readily understandable in view of the nature of the Corporation's operations. A large volume of commodities held in inventory was evidenced by warehouse receipts issued by bonded warehouses. With respect to fungible commodities such as grain, oilseeds, etc., stored in public warehouses it would be impossible to take physical inventories as at any specific date of the portion against which receipts were held by the Corporation. In the case of processed and packaged commodities, purchase by the Corporation from the commercial vendors were delivered f.o.b. railway cars at shipping point or f.a.s. vessel. Therefore, huge quantities were always in-transit to port, in pier storage, located on wharves for lifting, or in process of being lifted or aboard vessels, as of any specific date.

On March 12, 1945, the President of the Corporation, pursuant to a resolution approved by the Board of Directors on March 10, 1945, requested the General Accounting Office to take a physical inventory of processed commodities. This request was prompted by the realization of the Corporation that serious deficiencies existed in inventory control procedures, which was indicated by the findings included in the Report of the Committee on Appropriations on the investigation of the War Food Administration, made in June 1945 to the Congress The effectiveness of this endeavor was materially impaired by the factors explained above.

In the conduct of its day-to-day operations at the present time, the Corporation controls its inventory of all processed commodities on a lot-by-lot basis, and makes periodic verifications with rexpect to individual commodities, as conditions warrant. Generally such verifications are made when commodity movements permit or at the end of the fiscal year. In the case of fungible commodities and other non-processed commodities, evidence of ownership is periodically verified through confirmation with warehousemen.

OVERSTATEMENT OF WHEAT LOANS

Senator Williams' Statement (Congressional Record, March 25, 1949)

"I also understand that the wheat loans are overstated by about $4,000,000, with the corresponding overstatement in accounts payable." (Page 3254)

Comment

When loans are called, and the price of wheat on the open market is below the loan rate, farmers deliver large quantities of collateral in a relatively short period. In many areas, local storage capacity is not sufficient to store grain, and it is shipped to subterminals or terminals almost as rapidly as it is delivered.

Under conditions such as these, it is inevitable that bills of lading and warehouse receipts will be received from elevators more rapidly than reports of delivery at country points are received, audited and recorded. Accordingly, a suspense account is necessarily used in which to record wheat received in connection with which the loan settlements have not been effected and recorded.

A similar situation with respect to wheat loans may well occur this year, but currently effective procedures are designed to correlate to the maximum possible extent the liquidation of the loan with the delivery of the collateral.

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OMISSION FROM SALES OF BARLEY SHIPPED TO RUSSIA

Senator Williams' Statement (Congressional Record, March 25, 1949)

"Furthermore, an incident has been called to my attention where barley has been shipped to Russia in the amount of $1,000,000, under the trading program, and the item has been omitted entirely from the sales." (Page 3255)

Comment

In its June 30, 1945 Trial Balance on 1944 Barley submitted to the Washington office, the Portland office reported a reduction in inventory by transfer to the GCP program of $1,137,007.90. Examination by the Washington office of the GCP Trial Balance and related records as of the same date disclosed that only $48,140.40 of this amount was recorded on the GCP Trial Balance. Accordingly, the Washington office made a worksheet adjustment in preparing the overall financial statements as of June 30, 1945, adjusting the inter-office transfer account and setting up as Unbilled receivables - Lend-Lease, the difference of $1,088,867.50. The Portland office in July 1945 reversed the inventory transfer entry in the amount of $1,088,867.50, and in September 1945, recorded the delivery as a sale. The transaction to which these entries relate was a transfer of barley to Russia under the Lend-Lease program.

ACCURACY OF AMOUNT OF COTTON LOANS

Senator Williams' Statement (Congressioal Record March 25, 1949)

"In the case of certain other programs it was also impossible to support the recorded balances of receivables, particularly in the case of claims in the case of cotton loans held by the Corporation. It had made no effort to prove the accuracy of the total amount of loans and, therefore, I understand that the total amount of loans reported by the Federal Reserve Banks, as custodians, could not be reconciled with the records of the Corporation. At least one duplication of over $2,000,000 has been reported to me." (Page 3254)

Comment

The books of the New Orleans office of the Corporation did reflect $2,329,485 as loans held by lending agencies as of June 30, 1945 in error, since these loans had previously been purchased by the Corporation. This error, of course, was subsequently corrected. The comment regarding the reconcilement of individual loan account balances refers to the inability of the New Orleans office to perform as of June 30, 1945 a reconciliation between punch card cotton loan records in that office, the records maintained by the Federal Reserve Banks acting as custodians of cotton loan documents, and the General Ledger control balances of the New Orleans office. This situation existed as of the date stated over 3½ years ago, but has been corrected since.

The individual IBM bale card system was established primarily to facilitate the physical handling of the huge volume of cotton involved in the CCC loan and purchase programs, and worked well for that purpose. The CCC made loans on approximately 14 million bales of 1940-44 crops of cotton, bought 2.6 million bales of 1944 crop cotton, and acquired or pooled for producers approximately 9.5 million bales of loan cotton after August 1, 1939. The problems involved in the record-keeping for as well as the physical handling of this volume of cotton were tremendous.

During the war the New Orleans office was handicapped by a limited number of trained personnel and inadequate accounting machine equipment. Consequently, some auditing and accounting functions, including the comparison and reconciliation of loan and accounting records of the New Orleans office and the Federal Reserve Banks were not currently performed.

After 1945, concerted effort was expended toward eliminating all backlogs and balancing all accounts with related subsidiaries. Also, a detailed survey of the accounting system and procedures used was undertaken and a new over-all system was devised and placed into effect. This system worked satisfactorily under the tremendous work load of a 5 million bale loan this year.

Supplementary statement by Secretary of Agriculture Charles F. Brannan in regard to farm income-price support recommendations before the House Committee on Agriculture, Monday, April 25, 1949, 10:00 A.M.

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Since making my farm program recommendations, the Committee's comments and public discussion seem to have centered on three broad questions. These deal with cost, how the proposed program would operate, and the degree of Government control involved. With your permission, I should like to take up these questions a little more fully than has been possible heretofore.

First, let us look at the cost question.

As you know, this question involves many values in addition to dollars. We can and will use certain dollar illustrations but, as your own experience will verify, our economy is so complex and dynamic that it has never been possible to make accurate dollar estimates in advance for price support operations.

It has been said that the production payments called for in my proposal would be costly and that the cost must be estimated now. Yet Title II of the Agricultural Act of 1948 provides for the same kind of payments, and no estimates of the cost of that legislation were ever requested or made prior to its adoption.

Title I of the Act of 1948 continued the wartime level of price supports, yet no cost estimates were called for or considered at the time of its adoption, even on potatoes for which we were then carrying out the most expensive price support operation in history.

The same point could be made about earlier legislation. New bills and amendments have been enacted year after year on the basis of needs and the benefits to be derived. Actual results have been measured against actual costs, which is the only valid comparison.

My recommendations contemplate the operation of price support programs through the Commodity Credit Corporation, as they are being operated today. And as you know, Congress does not appropriate in advance for the CCC because, for a host of obvious reasons, the dollar requirements cannot be estimated accurately in advance. But Congress has a very effective control over costs. It controls authorizations and appropriations. If a particular program results in a greater outlay than the Congress is willing to continue, the Government's commitment may be changed for ensuing years. No program can cost more, over a period of years, than the Congress makes available.

Another point we need to keep in mind as we deal with the cost question is that we must always make comparisons. It helps no one to compare the costs of one program against no program at all. The American people have already taken the position that the farmer should have adequate returns, and until a better method is brought to light, the farm price support method is the one we should use. We have such a program in operation now. We have legislation on the books that is scheduled to go into effect next year. We have had considerable experience in the past.

Due to our expanded productive capacity and the possibility that our foreign markets will diminish, costs under any effective program may increase. The least expensive program in the public interest, for the long run, will be that which encourages the greatest and most efficient consumption of farm commodities which would otherwise be surplus. These facts must be taken into account as we consider the recommended program. An absolute figure without comparisons is bound to be misleading and to give substance to the fallacious arguments of the enemies of price support legislation.

The real core of the question of cost is how effective we choose to make our program. Obviously, we are not going to get something for nothing in this farm program business, any more than anywhere else.

In my statement of April 7, I laid before you my views on the public need for a strong farm income and price support system. I said it can serve the interests of all the people by helping to prevent depression, build bigger markets for industrial goods and jobs for workers, maintain high-level production of farm commodities, conserve natural resources, maintain reserves for national security, strengthen the rural community, and provide consumers increased supplies at attractive prices.

A program that will effectively contribute toward those ends is worth a considerable public investment.

But let us not try to kid anybody — either the farmer or the general public. Any program which is so designed that the public investment is always sure to be small is going to be an ineffective program at the very time a strong program is needed. It is not likely to give adequate service of the kinds I have listed, either to the farmer or to the general public.

What is adequate?

An eastern financial journal says that my proposal "promises to farmers more than they are entitled to." That is a matter of opinion which the Congress is going to settle. But let me emphasize this question: In the public interest, how far down do you dare let farm income slide?

Farm prices already have come down 15 percent since the beginning of last year. The prices paid by farmers have stayed close to their peak level and are currently only about two percent under last summer's level. The purchasing power of what the farmer sells has come down to the lowest point since 1942.

Under my proposal, the income standard from which price supports would be computed is 15 percent lower than that actually received last year.

How much lower does the public interest permit farm prices to go without similar cuts for all other groups?

Let me clear up one other point in this connection. My proposal is plainly not a guaranteed-income scheme. If the farmer's production fails for any reason, price support does not help him. This proposal does proceed toward an income objective. It does offer a means of computing price supports from a minimum income standard, recognizing that we are more fundamentally concerned with income than with price. It does offer a means of extending price support to those commodities which are most important in the farm income picture. But it cannot provide farmers a guaranteed level of income unless Congress should make a flat commitment on every commodity produced by farmers, and I am sure nobody expects this will be done. Under my proposal, farm prosperity would certainly continue to depend upon individual enterprise and abundant farm production as well as upon high-level employment and purchasing power in the whole economy.

Let me also point out that this is a price support recommendation — not a consumer subsidy proposal. I have merely recommended those methods of supporting farm prices which will do most to lick the surplus problem by encouraging consumption. There is a considerable difference between (a) subsidizing consumption with the hope that the benefit will trickle down to the farmer and (b) supporting farm prices in ways which will give consumers the most for their money. I am, of course, recommending the latter. The payment method for use on perishable commodities will enable us to go on producing and consuming somewhere past the level where straight dollar demand would temporarily stop us. That enables genuine demand and our real productive power to exert greater influence in our economy.

There have been a number of reckless estimates of the costs of the proposed program for the year ahead. None of the authors of the statements have estimated the cost of the present program. If I understand the estimates correctly, all of them assume a severe depression and low farm income. I confess that I do not assume a depression. On the contrary, the whole proposal is designed to help avoid a depression by maintaining reasonable farm income.

Some people may be planning on depression, but the Government of the United States must plan otherwise. By action of the Congress, we are committed to a policy of promoting maximum employment, production and purchasing power. In my opinion, a strong farm program is an essential of that policy.

If national income stays high and reasonably well distributed, farm prices will not rest on the supports and therefore supports will not be costly.

If, however, you assume a depression, then you must be aware that farm surpluses and city unemployment will almost certainly force into existence programs of straight relief and very likely some form of a food stamp plan which could be very costly. In my opinion, an equal amount of money used for production payments would be much more effective in supporting farm prices and would keep us on the side of preventing depression rather than waiting for it to develop.

With those observations for background, let us now look at how the proposed program would operate for various commodities and try to get an idea of costs as we go along.

For the purpose of the commodity by commodity discussion which follows, I am assuming one and the same level of support regardless of whether that level is established under the income support standard formula, the present formula now in force and effect, or the formula described in Title II of the Act of 1948 or, for that matter, any other formula. In short, I am making a comparative analysis with respect to method only. Obviously a lower support price would mean a relatively lower commitment by the Government and thereby lower losses where any losses to the Government occur. It would certainly mean lower income protection to farm people.

Cotton, Tobacco, Corn and Wheat:

As has been indicated in my previous statement and in subsequent discussions, no change is proposed in method of supporting the farmer's price of cotton, tobacco, corn, and wheat which coincide with the present price support operations with respect to these commodities. That is, we would use commodity loans and purchase agreements. Therefore, any estimate of loss or gain on these commodities under the proposed program is equally applicable to the present or authorized program.

Hogs:

Of the nonstorable or perishable commodities in Group One, hogs present one of the most difficult support problems with which we may be confronted.

For the purposes of an example, let us take a year's production goal of 20 billion pounds of hogs, live weight, and a price support level of about $16.50 per hundredweight. Then let us assume that we have one billion pounds of live hogs which will not clear the market at a price which will reflect the support price to the farmer. Assuming this excess production, there is an immediate obligation to support the price of hogs through a purchase program, the only method now authorized by law. This would cost about $230,000,000. This estimate is reached as follows:

The initial obligation would be about $165,000,000; this assumes that we would buy the hogs at the farmer's gate and that the acquisition of the hogs could be accomplished with no expense whatsoever to the Government. Everyone knows that this is an unreasonable assumption because we cannot buy hogs at the farmer's gate, nor, in fact, can we buy them at stockyards.

The only practical way to buy hogs is from the packer after slaughtering, processing, curing, and so on. Buying it from the packer in the form of fresh and cured pork would involve the additional expenditure of at least $65,000,000. Immediately upon acquisition of the pork, arrangements must be made for its proper storage. This means additional handling and storage charges by the month. Pork can be kept in good condition under the best refrigeration for only six months to one year. That being the case, the Commodity Credit Corporation would have to go into the world market to find a purchaser within a relatively short time. The pork obviously could not be sold into the American market because it would break the support price. The Government would be faced with a total loss of the $230,000,000 plus carrying and disposal charges, less whatever could be realized from sales to offshore customers.

With this $230,000,000 a production payment to farmers could be made on 21 billion pounds of hogs in the approximate sum of $1.10 per hundred, live weight (or more if payments were made only on marketings). In other words, the price of hogs, live weight, in the market place could be reduced by $1.10 before it would cost this Government one cent more money than it would be obligated to pay under the purchase method. This $1.10 is about seven percent of the $16.50 assumed support level. If a seven percent reduction could be carried all the way through to the retail level, it would be possible to reduce the consumer's price of pork by about seven percent and at the same time give him access to the finished pork product from one billion pounds of live hogs. Perhaps this example is an over-simplification. There are many factors which might influence the final conclusion in a small way in either direction. But we do believe it summarizes the essential facts.

Beef, lambs, and chickens:

I don't suppose anyone on the Committee expects us to be in a program of supporting the price of beef cattle and lambs in the near future, but if and when we are, the operation would be analogous to the hog example I have just given. This would also be true with respect to chickens.

Eggs:

If we undertook to maintain egg consumption at about the present levels, it appears that an annual commercial movement of about 4 billion dozen eggs would be required. Let us assume that production or marketings exceed the 4 billion dozen figure by 300,000,000 dozen eggs. What would be the cost under the present purchase program?

Based on our experience over the last two seasons, the surplus of 300,000,000 dozen purchased as dried eggs would probably cost the CCC about $120,000,000. However, this is again only the initial cost. Additional costs would be incurred because of transportation, storage, and other charges, which might well run another $52,000,000. Since little or no prospective outlets are available for these eggs, the entire inventory would represent a potential loss to the Government.

Under the production payment plan, this cost of $172,000,000 would allow a production payment of about four cents a dozen on the 4,300,000,000 dozen eggs available for the commercial market. This ought to permit a decline in retail prices in excess of four cents a dozen and give consumers access to the additional 300,000,000 dozen eggs.

Milk and milk products:

Under the proposed program with regard to milk and its products, we would continue full use of present marketing agreements and orders, extend those programs as and when producers and handlers desire, and continue to use purchases of dairy products as a price support method wherever this method would be most economical and otherwise consistent with the public interest.

We would not, however, make purchases for which we could not find acceptable outlets.

We would use the purchase method mainly to relieve spot surpluses and seasonal problems which could be met most efficiently in this way.

The Board of Directors of the Commodity Credit Corporation recently estimated that 20 million dollars may be required in this type of operation between now and the end of this calendar year. We are just coming into the flush milk producing season and it is imperative that we make the best possible arrangements to discharge the CCC obligation to support this commodity.

Whenever any large-scale operation becomes necessary, we should use the production payment method. As a rule, this would cost the Government about the same amount as would purchases and would make more milk and milk products available to consumers at lower prices than would otherwise be the case. It would also call for a greater consumption of our grain and forage production.

As I previously indicated, the payment method could be used, if Congress so decided, not merely to support prices but directly to encourage greater production and consumption of milk. Prices of fluid or Class I milk to consumers over the country these past few months have ranged between 22 cents in several eastern cities to a low of 14 cents in one of the major midwest cities. In a 4-quart container, milk is now selling in grocery stores in Chicago at 16 and one-fourth cents a quart.

To the extent that the objective is to increase consumption of milk by lowering the price to the level which will secure the greatest consumption, it may be necessary to use additional sums of money and relate the payments to costs of production, the support operation and the reduced price to consumers.

For whatever assistance it may be to the Committee, here is one guide estimate. If a payment of one cent were made on every quart of Class I milk consumed in fluid form the cost to the Federal Government would be around 150 million dollars per year. It is obvious, however, that to achieve the desired result such a payment would not be necessary on much in excess of one-half of the milk so consumed.

Potatoes:

While the demand for the main livestock items is relatively elastic, this is evidently not true of potatoes. Small changes in market supplies cause much greater changes in market prices. I believe a satisfactory production payment program can be operated for a great deal less money than we have been spending on potatoes.

When the CCC has fulfilled its obligations under the existing law to support the price of potatoes for the marketing season of 1948, it will have expended approximately 225 million dollars. This program will have maintained the price to producers at an average of $1.75 per bushel for Grade A potatoes. The total production last year was 445 million bushels. Therefore, in order to maintain this level it will be necessary to withdraw from the market and dispose of approximately 123 million bushels. With the use of 225 million dollars, we could have reduced the price ~~on commercial sales~~ ~~to~~ of sales for commercial purposes ~~consumers~~ to about one dollar per bushel and retained the farm return ~~price~~ at the support level. Consumers would have benefited accordingly.

Let me make it very clear, that, in my opinion, the major portion of the potatoes withdrawn from the market during the 1948 season represents excessive and unjustified production, which by the use of production payments, acreage allotments, or marketing quotas, or marketing agreements and orders, should be eliminated in future years so that such losses to the Government on a single crop would not be incurred.

There are other commodities now receiving support, both storables and nonstorables, for which we have made no comparisons and the general factors would be the same as those previously discussed. Some will continue to be supported.

Some of the commodities not now under support are of sufficient importance to the income of some sections of the country and are of sufficient importance to the national diet that it is conceivable that, at some date in the future, support prices should be made available to them under appropriate circumstances. But to estimate those kinds of factors now does not, in my opinion, come within the realm of practicability.

For these reasons and the others already discussed, to estimate the over-all cost of the program would serve no useful purpose.

Another misunderstanding of my recommendations which I should like to clear up has to do with the amount of Government control involved.

This is somewhat related to the cost question. On the one hand, we hear that a program will be too costly, and on the other hand, we hear it said that if we place limits or conditions upon the amount of price support, this is "regimentation." The two arguments conflict. It should be clearly understood that the only so-called Government controls involved in my recommendations are those which limit the amount of the Government's commitment to farmers.

I state categorically:

(1) That my recommendations call for absolutely no form of authority or control not contemplated by Title II of the Agricultural Act of 1948.

(2) That the legislation I have recommended is less restrictive than any so far enacted by virtue of the fact that it offers more encouragement to the abundant consumption and production of farm products and, thereby, offers more protection against surpluses. This program would increase inducements for desirable adjustments without ordering them.

(3) That the present legal right of producers to accept or reject by referendum any proposed mandatory limitation upon their marketing should not be infringed. As you know, a farm marketing quota program cannot be put into effect for any commodity unless at least two-thirds of the producers voting in a referendum have accepted such regulation. The Secretary cannot even propose such a mandatory limit except under carefully defined conditions which safeguard the public interest.

Farmers fought for the legal rights they now have to impose marketing limits upon themselves. In the view of those who did so, these rights represent an extension, not an infringement, of their freedom. I adhere to this principle.

For the record, let me give you the citations to provisions of Title II, Agricultural Act of 1948, and preceding legislation, which carry every type of authority to which my own recommendations refer. Unless otherwise noted, the citations will refer to Title II, Agricultural Act of 1948.

<u>Production payments</u> — Section 202 (a).

<u>Acreage allotments and marketing quotas</u> — Sections 311 et seq., Agricultural Adjustment Act of 1938; Sections 203-208 of Title II.

<u>Marketing agreements and orders</u> — First provided in Section 8, Agricultural Adjustment Act of 1933; also see Congressional Record of July 7, 1948 (94 Cong. Rec. A4620) for confirmation that it was the intent of Title II, Agricultural Act of 1948, that the Secretary have authority to condition price support for certain commodities upon there being in effect marketing agreements or orders regulating the marketing of such commodities.

<u>Soil conservation as a condition required for price support</u> — See Section 8, Soil Conservation and Domestic Allotment Act. When the farmer's income was supported in part through payments under this Act, full payment to a farmer was conditioned upon

observance of soil-conserving and soil-building practices. See also Section 202(a), Title II. This lists compliance with production goals as a condition for price support. Under this provision, by administrative determination, a particular acreage of soil-conserving crops would be a production goal upon which price support could be conditioned.

Parenthetically, let me say that with a realistic income and price support in effect, the farmer should be able to operate with more regard to soil conservation than he otherwise could. This is another reason why I regard this recommendation as a fair one.

<u>Limitation of amount of price support per farm</u> -- In principle, this is not different from limitations upon the size of conservation payments (see Section 8(e) of the Soil Conservation and Domestic Allotment Act and the appropriations for such act in the Department of Agriculture Appropriation Acts for 1948 and 1949). Nor is it different in principle from limitations upon private use of the public domain such as irrigation water and grazing lands.

With regard to the recommended conditions and limits as a whole, let me make this one observation: Price supports are granted by the public in the public interest, not as a matter of inherent right. The publis has also established certain other policy objectives in the field of agriculture. In my opinion, it is entirely proper that the program should connect up the various policy objectives that are naturally interrelated.

UNITED STATES DEPARTMENT OF AGRICULTURE
Office of the Secretary

Statement by Charles F. Brannan, Secretary of Agriculture and Chairman of the 1949 International Wheat Conference, at organization meeting of the International Wheat Council, Washington D.C., July 6, 1949, 11:00 a.m., EDT.--HOLD FOR RELEASE

I would like to open this organization meeting of the International Wheat Council by saying "Welcome back!" Fifteen weeks ago this group successfully concluded a historic meeting out of which came the International Wheat Agreement. Today we are meeting to continue that work. In this new session we expect to turn what is thus far essentially a paper agreement into a concrete program of action.

As we meet here today, I can assure you gentlemen that this is a much happier occasion than the one of a year ago when it became my duty to come before you and regretfully announce that my Government had not completed action on the Agreement then being considered. As you may recall, however, I pointed out that we were unshaken in our confidence that the multilateral approach is the best approach in solving international commodity problems. And, as some of you may recall further, last November 24 President Truman promised the delegates to the Food and Agriculture Organization Conference that if another agreement could be ratified, he would pass it on to the new Congress with expectancy of approval.

I am deeply gratified that my Government has joined with the many others that have seen fit to approve this 1949 Agreement. There will be a detailed report on this subject later in this meeting by a representative of our Department of State, but I can say now that enough nations have approved the Agreement to meet the provisions for its entry into force. The United States is happy and proud to have the opportunity of working with your nations in carrying out the terms of this Agreement.

Countless hours of hard work and sincere effort went into the formulating of the Wheat Agreement during the sessions last spring. The task of administration that this Council is undertaking is, in many respects, just as difficult. We are confident, however, that this Wheat Agreement will be administered in such a way

(more)

that it will be fair both to importing nations and exporting nations alike.

Our work here represents a form of international pioneering, and the challenge is a grave one. The entire world will be watching and judging. I think the importance of our action was indicated by President Truman in the FAO address that I mentioned earlier when he said:

"I look to the general pattern of the Wheat Agreement as one which might be followed for other commodities. Stability is one of the foundations of peace. National emotions too often rise and fall with changes in commodity prices."

I can assure all of you gentlemen that in the carrying out of this Agreement we in the United States will do our part faithfully. We believe in its principles, and we want it to be successful.

As you begin your work of organization, may I express the three thoughts that are uppermost in my mind:

First, we are pleased and honored that the Council is holding its organization meeting in Washington.

Second, we want you to know that the United States is neutral with regard to the permanent site of the Council's headquarters. We do not suggest that it be established in Washington; rather, we hope that the Council will make its determination with full objectivity, and select a site that contributes best to effective administration. If, in your judgement, that site should be Washington, then the Council will indeed be welcome to make its headquarters here and we will render all the cooperation and assistance that we can.

My third and last point is that we have no candidates to nominate for the offices of the Council. We do expect, however, to join actively with other delegations in seeking out those men who, in our judgement, are best qualified to serve.

Since there is so much important business to conduct, I know that you want to get on with it. It has been a distinctive pleasure to serve you, both in the earlier Wheat Agreement Conference and in the opening phase of this Wheat Council meeting. Now, however, I think it fitting that this meeting go forward under leadership of your choice, and, unless there are objections, I would like to call for nominations from the floor for a temporary chairman to carry on the immediate business of the council.

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